



COMMON QUESTIONS ABOUT LIFE INSURANCE



Servicemembers often ask their legal assistance attorney about life insurance. Unfortunately, this often happens after they have purchased a life insurance policy and now want to know what the policy means. This article addresses some of the more commonly asked questions about life insurance.

What Is Life Insurance?

Life insurance is a contract between you and the insurance company. The life insurance company agrees that in event of your death, it will pay an agreed upon sum of money to a person you designate.

Essentially, life insurance provides some economic security to your dependents in case you have an untimely death. In exchange for this protection, you agree to make payments, known as premiums, to the life insurance company.

Do I Need Life Insurance?

The short answer is that it depends. The purpose of life insurance is to protect your dependents against the economic uncertainty of your death. You do not need life insurance if no one depends on you economically. Furthermore, you may not need life insurance if you do not generate a significant percentage of your family's income. However, if your salary is the primary means for supporting your family, paying off a mortgage, or sending your children to school, buying life insurance does make sense.

How Much Life Insurance Do I Need?

Again, the short answer is that it depends. Remember, as servicemembers you are covered by SGLI up to \$200,000. For some of you this may be all the insurance you need. For others, the appropriate level of insurance will depend upon a number of much debt you have accrued and your general lifestyle. For example, a young E-5 with one spouse, one child, and a monthly rent due may need less life insurance than a mid-career E-7 with a spouse, three kids and a substantial mortgage. Once general rule of thumb is to purchase life insurance that is five to ten times your annual salary. In the end, you will need to consider how much coverage you feel comfortable with and how much you can afford.

What Types Of Life Insurance Are There?

There are many different types of life insurance policies available from life insurance companies today. You can purchase term, whole, variable, or universal life insurance.

Term Life Insurance is known “pure” insurance. Essentially, you buy insurance for a specific length of time. If you die before the “term period,” then your designated beneficiary will receive a predetermined level of death benefits. If you survive the “term period,” the insurance will expire unless you renew it. Some companies will allow automatic renewal so long as the premiums have been paid. Others may require you to fill out a new application or take a physical exam.

Under Whole Life Insurance, you have a policy for a set amount of dollars. In exchange for this coverage, you pay a uniform premium over a number of years. It can be anywhere between 10 to 20 years. Under Whole Life Insurance, part of the premiums you pay will be used to pay administrative expenses. Part will be used to pay for the insurance portion of your premium. The rest will go toward the investment or cash policy of your policy. At first, the premium you pay will be high in comparison to your risk of death. Furthermore, most of the premium will be used to cover commissions and administrative expenses. However, as you grow older, the premium payments will be low in comparison to your risk of death.

Under Variable Life Insurance, you can build up a cash reserve in your policy that can be used as investments. You can invest in any of the choices offered by the life insurance company.

Universal Life Insurance is similar to Whole Life Insurance. It differs in that you can vary the premium payments, the amount of coverage, or both every year. Universal Life Insurance also tends to provide the customer with more consumer information. For example, unlike Whole Life policies, Universal Life Insurance explains what portion of payment will go to administrative and other overhead expenses, how much is used to pay off your policy, and much is saved for investment.

How Much Will Life Insurance Cost Me?

If you rely solely on your SGLI, then your life insurance will cost you nothing. However, if you want to purchase additional life insurance, the price you can expect to pay will vary. It will vary according to the type of policy you choose, the commission the company must pay its agents and how much insurance you purchase.

Two basic costs affect how much you will pay for insurance. First, are the underlying costs, based upon actuarial table that project your life expectancy. Factored into these cost are any high-risk behavior you engage in, e.g., smoking, flying, or being overweight. Second, many insurance policies have hidden costs, such as fees and large commissions.

** This handout is for general informational purposes only. For specific questions concerning individual circumstances, or for questions in general life insurance, contact the Client Legal Services Office in your area.*

Yongsan Client Legal Services Office, Bldg 4106, room 229 (ACS building). Please call 738-6841/8111 for an appointment. Office hours: M, Tu, W, F 0900-1600 and Th 1300-1500.
